
The New York Certified Public Accountant



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No. 1

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State Society Activities — Professional Comment

Published by

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Objects of the Society

"To cultivate, promote and disseminate knowledge and information concerning accountancy and subjects related thereto; to establish and maintain high standards of integrity, honor and character among certified public accountants; to furnish information regarding accountancy and the practice and methods thereof to its members, and to other persons interested therein, and to the general public; to protect the interests of its members and of the general public with respect to the practice of accountancy; to promote reforms in the law; to provide lectures, and to cause the publication of articles, relating to accountancy and the practice and methods thereof; to correspond and hold relations with other organizations of accountants, both within and without the United States of America; to establish and maintain a library, and reading rooms, meeting rooms and social rooms for the use of its members; to promote social intercourse among its own members and between its own members and the members of other organizations of accountants and other persons interested in accountancy or related subjects; and to do any and all things which shall be lawful and appropriate in furtherance of any of the purposes hereinbefore expressed."

—*From the Certificate of Incorporation.*

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New York State Society of C.P.A.'s

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WENTWORTH F. GANTT
Managing Editor

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[The matter contained in this publication, unless otherwise stated, will not be binding upon the Society; and it should be understood that any opinions expressed in articles published herein are the opinions of the authors of the articles, respectively, and are not promulgated by the Society.]

STATE SOCIETY ACTIVITIES

Calendar of Events

October 7—3:00 P.M. Regular Meeting of the Board of Directors.

October 18—8:00 P.M. Society Meeting. Subject: **Responsibilities of the Certified Public Accountant in the War Effort and in the Post War Period.** Speaker: Major General Arthur H. Carter, G.S.C. Location: Waldorf-Astoria Hotel, Lexington Avenue and 49th Street, New York City.

November 15—3:00 P.M. Regular Meeting of the Board of Directors.

November 15—7:30 P.M. Society Meeting. Subject: **Federal Taxation.** Location: Grand Ball Room, Waldorf-Astoria Hotel, Lexington Avenue and 49th Street, New York City.

Nominating Committee Elections

Messrs. Arthur E. Surdam and C. Oliver Wellington were elected on October 7, 1943 to serve on the Nominations Committee. The others were elected at the May 10, 1943 Society Meeting.

Committee Chairmen Dinner

On September 20, 1943, the chairmen of the Society's standing and technical committees met for dinner with the Board of Directors at the Waldorf-Astoria Hotel, New York City, with President Marvin presiding. The meeting was honored by the presence of a number of past presidents of the Society and presidents of the chapters.

President Marvin, after introducing the past presidents, the officers, and members of the Board, turned the meeting over to Saul Levy, then President-Elect. Mr. Levy spoke

briefly concerning the program for the Society for the ensuing year and introduced Henry A. Horne and William R. Donaldson, Vice Presidents Elect, who spoke of the work of the standing and technical committees respectively. The chairmen of various technical committees were introduced and a general discussion of problems of the Society followed.

Mendes Elected Director

At the October 7th meeting of the Board, Henry E. Mendes, a partner of the firm of Touche, Niven & Company, was elected a Director for the ensuing fiscal year, as a result of the election at the May meeting of William R. Donaldson, a Director, to be Vice President. Mr. Mendes has been a member of the Society since 1912 and has, at all times, been active in service to the Society and to the profession.

Taxation Meetings

The Committee on Meetings is pleased to announce that the November meeting of the Society, to be held on November 15, in the Grand Ballroom of the Waldorf-Astoria Hotel, will be devoted to the subject of Federal Taxation. The program is being arranged by the Committee on Federal Taxation under the chairmanship of Maurice Austin.

The December meeting, to be held on December 13 at the Waldorf-Astoria Hotel, will be devoted to New York State Taxation, and is sponsored by the Committee on State Taxation under the chairmanship of Benjamin Harrow.

Tax Questions

The Tax Committees of the Society have been receiving many in-

quiries concerning taxes, which are clearly outside the province of the Tax Committee to answer. As a result, the following letter has been sent to members who request answers to questions which the Committees feel are outside the scope of their activity.

Dear Sir:

We very much regret to say that answering questions of the kind which you propounded is outside the scope of this committee's activities, as outlined in the Society's Manual for Committees, as follows:

"Technical committees on taxation * * * shall not be expected to answer inquiries, the solution of which may be had by reference to the law itself, the related regulations, or ordinary tax services."

Accordingly, we have not undertaken to deal with such questions except in so far as they may be said to affect the profession as a whole, in the sense of calling for general administrative ruling or changes in, or clarification of, administrative rules or regulations, or legislation.

There are several reasons of policy underlying the above excerpt from the Committee manual, namely:

(1) You will appreciate that the Committee does not have the advantage of full knowledge of the background to questions submitted, and without such knowledge an answer could be given which subsequently might prove to be detrimental to the interest of your client. Also an answer might be given for which the Committee and the Society might be criticized because it lacked a full knowledge of the underlying facts which cannot always be given in detail in a question. To avoid situations such as these the function of the Committee, as outlined above, has been approved by the Board of Directors of the Society.

(2) It was the view of the draftsmen of the Committee manual that

it would be manifestly unreasonable to expect Committee members to examine into laws, regulations and decisions with respect to tax problems confronting clients of members.

We are sure that you will readily realize, upon consideration, that, were we to undertake to deal with questions affecting individual taxpayers, such as are set forth in your communication, we would be burdened far beyond what could reasonably be expected of men who volunteer for this kind of work and who are called upon to devote more than a sufficient amount of their time and energy in committee activities without undertaking this also.

The same policy is followed by the American Institute of Accountants and by all other professional organizations.

The foregoing is not affected by the fact that, as part of the program of Society meetings handled by the Society's tax committees, questions relating to the particular program are answered by the speakers or committee members.

Accordingly, we can but express our regret that we are unable to comply with your request.

Very truly yours,

.....,
Chairman.

SOL C. KOSSOY

Sol C. Kossoy, a member of the Society since December, 1936, passed away on June 7, 1943.

HERMAN C. COHEN

Word has just been received of the death on September 1, 1943, of Herman C. Cohen, a member of the Society since September, 1941.

The Society has suffered a great loss in the passing of these valued and esteemed members.

PROFESSIONAL COMMENT

State Taxation

The following notice and exchange of letters is reprinted from the September 1942 issue of the New York Certified Public Accountant with the added comment that the State Tax Commission, for administrative reasons, feels that it must insist upon a completely filled in corporate franchise tax return on form 3 IT. Members of the Society are, therefore, again reminded that they must comply with this request.

Members of the Society will be interested in the exchange of correspondence between the Committee on State Taxation and the Corporation Tax Bureau of the State of New York, copies of which appear below:

Mr. Spencer E. Bates, Deputy
Commissioner
Department of Taxation and
Finance
Corporation Tax Bureau
80 Center Street
New York, New York

Dear Mr. Bates:

I am writing you following the visit which Mr. Harrow and I paid you the other day on behalf of the Committee on State Taxation of the New York State Society of Certified Public Accountants.

We discussed the application of Form 336 CT which has been sent by the Bureau to corporations which have attached Balance Sheets and Profit & Loss Statements to the Franchise Tax Return Form 3 IT instead of filling in the return.

In the course of our discussion with you, it was pointed out that in many cases the Balance Sheet and Profit & Loss Statement were modeled after the State and Federal returns and were used by some accountants for many years in an at-

tempt to save time in filling out the returns. Since your Department has in the past apparently accepted such returns, it would appear that if the necessary information has been furnished in schedules accompanying the 1942 returns, these returns should be accepted for the current year rather than put business concerns and their accountants to the effort of preparing returns a second time under the extraordinary conditions now prevailing, particularly in the absence of special notice to taxpayers before the 1942 returns were filed.

Of course for future returns, the Bureau could well insist on strict adherence to its requirements of filling in the return and that requirement could also be insisted on, in the case of returns on file where the attached schedules do not completely embody the information called for in the body of the return.

If our suggestion is agreeable to you, we would recommend that 1942 returns which were accompanied by complete schedules would be accepted as a basis for audit and taxpayers be notified through the instructions accompanying the 1943 returns that such returns must be completely filled in. We shall also be very glad to cooperate in publishing an appropriate statement along these lines in our monthly periodical, the NEW YORK CERTIFIED PUBLIC ACCOUNTANT in such form as meets with your approval.

Won't you be good enough to consider this matter further in the light of our discussion and this letter and let us have the benefit of the conclusions reached by the Committee under the circumstances.

Very truly yours,

BENJAMIN GRUND, *Chairman*
Committee on State Taxation

The New York Certified Public Accountant

Mr. Benjamin Grund, Chairman
Committee on State Taxation
The New York State Society
of CPA's
15 East 41st Street
New York, N. Y.

Dear Mr. Grund:

Deputy Commissioner Bates has forwarded to me your letter of July 31 with regard to the requirements set forth in form 336 CT as applied to 1942 corporation tax returns.

I feel sure that you must appreciate the circumstances which impel us to insist that these returns be made upon and in strict compliance with the forms provided for that purpose.

However, there is no disposition on our part to cause taxpayers and their representatives any additional difficulty in filing returns. Consequently, we find the suggestion contained in your letter entirely agreeable and 1942 returns not filed in conformity with form 336 CT, but accompanied by schedules which completely embody all of the information required by our forms will be accepted as a basis for audit.

Obviously, we must reserve the right to determine whether or not accompanying riders or schedules supply all of the information which would be forthcoming had the Department form of return been used. Finally, we shall be most appreciative of your cooperation to the end that henceforth corporation returns will be made upon the forms provided for that purpose.

Yours very truly,
JOSEPH M. MESNIG
Commissioner

It appears that some accountants, instead of filling in the franchise tax return 3 IT, have attached Balance Sheet and Profit and Loss Statements to the return. The Corporation Tax Bureau in such cases has been advising taxpayers that the re-

turn is unsatisfactory and must be completely filled in in order to be a basis for audit.

The Committee, after a meeting with Mr. Spencer E. Bates, Deputy Commissioner, suggested in a letter of July 31st to Commissioner Bates that returns already filed for 1942 with schedules attached should be accepted rather than put business concerns and their accountants to double work. For the future, however, because of substantial administrative difficulties in the audit of returns which are not filled in but are instead accompanied by attached schedules, the Department will insist on strict compliance with the forms.

Members of the Society accordingly are urged in order to avoid any difficulty in the future to fill in completely corporation tax return forms 3 IT and not to affix schedules except in such instances where the return calls for a schedule.

City Sales Tax

The Society has had some correspondence with John W. Allen, Assistant Deputy City Collector, with regard to the use of the registration number assigned to the taxpayer by the Department. The following is quoted in a letter from Mr. Allen:

"At the request of the Department of Finance, those who prepare New York City Sales and Business Tax returns are again requested to enter on each return, on which it is not already recorded, the registration number assigned to the taxpayer by the Department.

Accountants and attorneys, who compile such returns for clients, are reminded that a permanent list of registration numbers should be maintained. Numbers which cannot be obtained from the taxpayers will be furnished by the Department of Finance upon request."

Professional Comment

Directory of War Agencies

A 100 page directory of war agencies has been issued by the Chamber of Commerce of United States. Handbook lists 84 war agencies, 365 sub-agencies, 851 industry and other advisory committees, 1051 field offices, and 4292 officials in charge of war activities. Addresses, telephone

numbers, commonly used abbreviations and a comprehensive index make the volume an important tool for accountants and business men. Copies may be obtained by addressing request to War Service Division, Chamber of Commerce of United States, 1615 H Street, N.W., Washington 6, D. C.

Match THEIR Gallantry With YOUR Giving
Support the
NATIONAL WAR FUND

Service Club Accounting

A Study of an Accounting System

By LEO H. SEITELMAN, C.P.A.

Introduction

ON every Army post there are one or more service clubs operated for the benefit of the enlisted men and women. Each club usually consists of a cafeteria, soda fountain, guest house, ballroom and library. The guest house provides sleeping accommodations for visitors at a very nominal charge (50 or 75 cents per night). The service club is different from the Post Exchange since the latter is a store which sells refreshments, toilet articles, and other necessities. The service club, on the other hand, is a place of recreation.

The clubs are self-sustaining projects. The buildings and sufficient equipment to start operations are provided by an initial grant of government funds. After that, additional equipment and operating expenses are paid from Service Club funds.

The Service Clubs are under the jurisdiction of the Special Service Branch of the Army. The Special Service Officer usually designates an officer of his staff as Service Club Officer who is directly responsible for the administration of the clubs. The Service Club Officer has an office staff who takes care of the general accounting records, payroll, purchasing, property records, etc. Every individual club has its own hostesses. The cafeteria hostess manages the cafeteria and soda fountain, hires help, sets the menu, fixes prices and orders supplies from the office purchasing agent or directly from the daily suppliers. There are other hostesses in each unit who take care of the social affairs and the library.

It is important to have correct information from an accounting standpoint so that a sound price policy

can be established in the revenue producing departments, namely, the cafeteria, soda fountain and guest house. The cafeteria hostess may be inclined to charge slightly higher prices so that her department shows a greater profit. Since competition is non-existent in most camps, it is very easy to charge any price desired. However, it is not the purpose of these clubs to accumulate a large surplus and profit because they are operated directly for the benefit of the soldiers. The War Department's policy is that accumulated profits be used for purchase of equipment and after that to give the soldiers the benefit of a low price policy in the cafeteria and soda fountain. Therefore, the accounts must be set up so as to make it possible to determine the operations of each individual club and every revenue producing department therein.

Statements and Accounts

A combined balance sheet is usually prepared for all the clubs. For example, although there are separate accounts for Cash on Hand, Furniture and Fixtures, and Inventories for each club, the Balance Sheet will reflect the total for the entire organization. It should be noted that regardless of the number of the clubs only one Accounts Payable account is necessary. Furthermore, in most cases one bank account will suffice.

A separate Profit and Loss Statement is prepared for each club. The Statement is arranged to reflect departmental operations. The nominal accounts in the general ledger should follow the pattern of the Profit and Loss Statement. For example, the Sales Account for any particular club should be set up so as to show

Service Club Accounting

income from Cafeteria, Soda Fountain, Guest House, or from any other source.

Cash Control

Every day the office cashier makes the collection of the previous day's sales from the individual clubs. The cashier makes out a Daily Register Report in triplicate for each club. One copy is given to the cafeteria hostess as a receipt, another is forwarded to the bookkeeping department for entry and the third is filed by the cashier.

The report shows the register readings at the beginning of the day and at the close of the day. The difference represents the sales for each register. The cashier's copy is supported by the register tapes which show the closing totals for the day. From these reports the bookkeeping department can summarize the sales for cafeteria, soda fountain and guest house and other income (Pinball and juke box machines).

It should be noted that the guest house usually does not have a cash register. Instead, the sales of the guest house for any particular day are determined by adding the duplicate copies of the receipts issued to guests. The Service Club Officer should periodically make a test check audit of the guest house records in order to ascertain whether the correct amount of cash is being turned over to the office cashier.

The bookkeeper checks every Daily Register Report to determine that the closing register reading of one day is brought forward as the opening reading for the following day. Moreover, the register tapes which are attached to the office cashier's copy of the report are also checked so as to ascertain that the correct figure is being used as the closing balance.

The Daily Register Report is used as a basis for the sales entry. The Sales Book for each club should show

all the various sources of income. The cash collected is deposited daily. The deposits are entered into a Bank Deposit Register. Therefore, in regard to cash, the net effect on the books is as follows:

1. From the Sales Book of any particular club there is a debit to Cash on Hand for that club and a credit to the Sales account (This sales account is subdivided so as to show the various sources of income).

2. From the Bank Deposit Register there is a debit to Cash in Bank and a credit to Cash on Hand of the individual clubs.

According to this system it should be noted that the sales of the last day of the month will always appear as Cash on Hand on the books, since the cash received will be deposited on the first day of the following month. Any change funds or petty cash should also be charged to the Cash on Hand account for any particular club.

Payments of invoices should be made by check. The amount of purchase discounts will be small because most of the purchases are food and beverages which are sold net.

Merchandise Control

For purposes of strict supervision it is best to have a central warehouse. This eliminates the necessity of carrying a large inventory at the respective clubs. If possible, every soda fountain and cafeteria should have its own stock room. If both departments use the same stockroom, one may find that merchandise charged to the soda fountain may be used by the Cafeteria. This is especially true of syrups and cups which are used both at the soda fountain and in the cafeteria. Experience has also shown that all merchandise needed, other than that delivered by the daily suppliers, should be ordered through one person—the purchasing agent.

The cafeteria hostess, as mentioned before, is in charge of the Cafeteria and Soda Fountain. She has two chief sources of supply:

1. Daily Suppliers (bread, milk, eggs, fruit, vegetables, ice cream, etc.). One of the largest suppliers is the Quartermaster Commissary.
2. Purchasing Agent—for all other supplies.

Every day the cafeteria hostess is required to fill out a purchase requisition for all supplies which she desires to be ordered by the purchasing agent. The purchasing agent may fill the requisition from the stock at the warehouse or by direct purchase of those items not on hand.

In every club, as well as the warehouse, a person is designated as responsible for receiving merchandise. These receiving clerks issue daily Receiving Reports. The reports, accompanied by invoices or Warehouse Charges (for merchandise transferred from warehouse to individual club) are forwarded to the Service Club Office for approval and payment. At the office the invoices and Warehouse Charges are checked against the Receiving Report.

A perpetual inventory is kept of all merchandise on hand at the warehouse. Every month a physical inventory is taken and checked against the records. The inventory for statement purposes consists of warehouse inventory plus the merchandise on hand at the service clubs. The warehouse clerk, as previously stated, makes up a daily Receiving Report which is forwarded together with the invoices to the office. When merchandise is sent from the warehouse to the individual clubs, a Warehouse Charge is filled out in triplicate. One copy is filed in the warehouse, another one is the truck driver's receipt or evidence of delivery and the third copy is left

with the merchandise at the destination. The club which receives the merchandise makes the appropriate entry on its daily Receiving Report and when the latter is forwarded to the office, the third copy of the Warehouse Charge is attached. When this copy reaches the office, it is used as the basis of a book-keeping entry in the Warehouse Register. To avoid errors in analysis it is advisable to charge the cafeteria and soda fountain separately although the delivery may be made in the same building. Some items, like paper cups and soaps, are used by both departments and, unless the Warehouse Charge is specific as to the recipient, it is very possible for the bookkeeper to make an error on the entry. It is important to ascertain that all Warehouse Charges issued during the month have been accounted for.

The Warehouse Charges, as stated previously, are entered into a Warehouse Register. At the end of the month this information is used to make an entry charging the various accounts, e.g. Cafeteria Purchases, Soda Fountain Purchases, Cafeteria Supplies, Soda Fountain Supplies and Guest House Supplies for each club, and crediting the Warehouse Inventory accounts. The Purchase accounts are charged with items which are to be sold, whereas the Supplies accounts are charged with soaps, napkins, paper cups, etc. For better control of the Warehouse Inventory it is advisable to have separate Inventory accounts for the Cafeteria, Soda Fountain and Supply items.

The Purchase Book is set up in the usual way. There should be columns for charging the Warehouse Inventory accounts for merchandise delivered to the Warehouse. Since many items are delivered directly from the merchant to the club there must be other columns for Cafeteria Purchases, Soda Fountain Pur-

Service Club Accounting

chases, Supplies and Expense items as well. Of course, for this latter group of accounts there should be columns for every individual club so that every club will be charged for the proper amount.

Invoices from daily suppliers may be entered once a month from the statement in order to reduce the number of entries in the purchase book. In this case a Daily Purchase Memorandum Record may be kept showing the purchases from each supplier by clubs. The totals shown by the Memorandum Record would form the basis for the monthly entry in the Purchase Book and would expedite the work of the bookkeeper at the end of the month.

Analysis of Nominal Accounts

From the discussion up to this point, one can see that it is important to have an analysis of income and expenses by clubs and departments. For instance, there should be a wage account for each club. This account may be subdivided so as to show wages for office, soda fountain, cafeteria, and guest house. The Glassware account for any club would be subdivided so as to show the proper expense of the cafeteria and soda fountain. This principle is carried out with as many nominal accounts as possible.

However, there are expenses which cannot be accurately divided between departments. This is true of Stationery, Printing, and Telephone. In some cases one may find that the ice or linen invoices for a particular club do not specifically show separate amounts for the cafeteria and soda fountain. For statement purposes such expenses should be divided according to an estimated ratio.

On the other hand, although it is possible to determine the amount of Purchase Discount applicable to each department of each club, the

work involved in distributing this small item is not worthwhile. The most practical way of handling this matter is to credit all Purchase Discounts to one account without any analysis of club or department. For statement purposes this account may be added to the "Net Profit on Sales" of any club.

Entertainment

Since one of the primary features of the Service Club is to provide entertainment for the soldiers, the Entertainment Expense account will be quite large. All expenses for entertainment and maintenance of the ballroom should be charged to one account for each club. The account should be so divided as to reflect the amount of bingo prizes, ballroom supplies, ballroom maintenance, dance expenses, refreshments, library subscriptions and library expenses.

At this point, one should note that although there is a Supply account or a Maintenance and Repair account for each club, such expenses which relate to the ballroom and library are charged directly to the Entertainment Expense account. On many occasions inspectors and military officials want to have information in regard to entertainment, so it is advantageous to have all the items in one account.

It is a policy of many clubs to permit individual Military organizations to use the ballroom at certain times for private dances, provided they bear the cost of such affairs. Such transactions may be recorded through a loan and exchange account. However, the best method is to permit the senior social hostess to take care of such events through her own check account. This is the best method since the hostess comes in direct contact with the organization running the dance. Of course, the bookkeeper must make certain

that expenses relating to private dances are not paid out of Service Club funds.

Equipment

Equipment may be purchased either from Welfare Enlisted Men's Army funds (U. S. Government Funds) or from Service Club funds. Equipment purchased from WEMA funds is purchased from appropriated government funds and is paid for by the Finance Department. Therefore, such equipment from a business view point, is a gift of the United States government to the Service Clubs and need not be recorded on the general books of account. However, purchases from Service Club funds are handled in the usual accounting manner.

Since it is believed that many posts will be closed after the war, the problem of handling depreciation arises. For a permanent post it is possible to follow a normal policy of depreciation. For a temporary post the method is debatable. Some accountants favor charging off all purchases of equipment to expense and carrying the fixed asset account at one dollar. This is done because the duration of the war is uncertain and the value of the assets at the termination of the war is doubtful.

However, if the above method is followed the period of purchase will bear an unfair amount of expense for statement purposes. The best method is to capitalize purchases of equipment and to depreciate the same over a short period of time, namely, two to three years. Thus, the expense is equalized over a period of years. Moreover, if the Clubs were to be closed at termination of the war, the amount realized upon a forced sale of the assets would be sufficient to cover the book value because of the high rate of depreciation.

In the opinion of the writer, the initial purchases of glassware, silverware and kitchen utensils may be capitalized. However, future purchases should be charged to expense.

A separate equipment account should be set up on the books for each club. The location of the equipment should be noted in the account, i.e., cafeteria, soda fountain, library, etc. Thus it will be simple to calculate and to charge the appropriate department for depreciation.

Since the Service Club Officer is responsible for all the property, a property file should be kept. The file is divided in two sections, namely WEMA Property, and Service Club Property. The visible tray index file has been found very useful for this purpose. A separate card should be used for each different kind of equipment, showing the unit price, date of purchase, vendor, number received, and to whom issued. Occasionally, a physical survey of the property is made. All property which is of no use, due to wear and tear, etc., is "redlined" (written off).

Labor

There are three groups of people employed in Service Clubs:

1. **Soldiers**—Some soldiers may be assigned to work in the office or around the clubs performing sundry duties. Any work performed after regular duty hours is compensated for by Service Club funds at the rate of \$1 per night.

2. **Hostesses**—Every club may have three or four hostesses. These women are Civil Service workers and are paid by government funds.

3. **Civilians**—This group constitutes the largest group of employees and is paid from Service Club funds. Due to the manpower shortage and the distance of most camps from large cities, the labor situation is very bad. Many of the employees

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Service Club Accounting

are inexperienced and the cost of operations is naturally affected because of the increased breakage of chinaware, waste of food in preparations, etc.

Each hostess sends a daily time report to the office for all the civilians employed. The bookkeeper enters the information on a summary so that at the end of the pay period one can determine the time worked by the employees. The payroll is prepared for each club by department (cafeteria, soda fountain and guest house). To avoid a great deal of clerical work, it is best that payment be made in cash. The envelopes are prepared in the office and then delivered to the respective hostesses for distribution. A copy of the payroll is forwarded with the envelopes so that the employees can sign their names as evidence of receipt. The signed payroll is returned to the office together with the uncollected wages which eventually are redeposited in the bank. The Uncollected Wages account reflects the amount of such redeposits. After a reasonable period, the individual items which remain open in the Uncollected Wages account are closed into the Wages Accounts for the respective clubs.

The Service Club Officer should make a periodic audit to determine that no fictitious names are entered on the payroll. This can be done by visiting the respective clubs and checking the employees with the names listed on the payroll.

Miscellaneous Problems

Meals are given free of charge to most civilian service club employees. In determining the basis for with-

holding for income tax purposes, the cost of such meals is added to the money wages. The cost is usually figured at 25c per meal.

Since the cafeteria supplies all the meals for those working at the soda fountain and guest house as well as in the cafeteria, an entry should be made at the end of the month charging the Wage accounts for the different departments and crediting Sales for the cafeteria for the value of the meals. If an entry is not made, the cafeteria would have to bear the total expense. In many instances, entertainers are given free meals. Such expense should be charged to Entertainment instead.

Another problem which faces the accountant is the deposits paid on containers. Such deposits may represent a large amount since deposits are paid on all soda bottles. To avoid unnecessary clerical work it is best to charge the Purchase accounts for the deposits as well as the cost of the goods. However, at the end of the year an adjusting entry should be made, setting up an asset account, and crediting the respective Purchase accounts for the deposits paid on containers on hand as of that date. It is not practical to make this adjusting entry for any interim statements.

Conclusion

From the foregoing discussion one can see that accounting for service clubs is the same in many respects as for private business enterprises, such as a chain of hotels or restaurants. The system described in this article can be very well adapted for U. S. Army Post Exchanges.

**CAMP RUCKER, ALABAMA
SERVICE CLUBS**

BALANCE SHEET

As of

ASSETS

Current Assets:

Cash:

In bank .....	.....	.....	.....
On hand .....	.....	.....	.....
Accounts Receivable .....	.....	.....	.....
Deposits on Containers.....	.....	.....	.....

Inventories:

Food .....	.....	.....	.....
Soda Fountain .....	.....	.....	.....
Supplies .....	.....	.....	.....
Total Current Assets.....	.....	.....	.....

Fixed Assets:

Furniture and Equipment exclusive of WEMA .....	.....	.....	.....
Less Reserve for depreciation.....	.....	.....	.....
Total Fixed Assets.....	.....	.....	.....

TOTAL ASSETS

LIABILITIES

Current Liabilities:

Accounts Payable .....	.....	.....	.....
Notes Payable .....	.....	.....	.....
Withheld Taxes Payable.....	.....	.....	.....
Accrued Expenses:			
Payroll .....	.....	.....	.....
Uncollected Wages .....	.....	.....	.....
Total Current Liabilities.....	.....	.....	.....

Net Worth and Surplus:

Surplus at .....	.....	.....	.....
Add Profit for.....	.....	.....	.....

Total Net Worth and Surplus at.....	.....	.....	.....
TOTAL LIABILITIES AND NET WORTH.....	.....	.....	.....

Surplus Analysis

CLUB	Surplus at	Profit for	Surplus at
#1			
#2			
#3			
Total			

Exhibit 1

Service Club Accounting

CAMP RUCKER

SERVICE CLUB NO.

PROFIT AND LOSS STATEMENT

For Month Ended

	Canteen	Cafeteria	Soda Fountain	Guest House	Total
Sales
Cost of Goods Sold.....
Gross Profit
Other Income:					
Vending Machines
Total Income
Expenses:					
Salaries & Wages.....
Admin. Wages
Laundry
Ice & Refrigeration.....
Sundry Supplies
Stationery and Printing.....
Repairs & Maintenance.....
Telephone, Telegraph & Postage
Insurance
Depreciation of Equipment...
Miscellaneous
Total Expenses
Net Profit on Sales.....
Less Entertainment and Ballroom Expense.....
Cash Over or Short.....
Net Profit

NOTES:

The Canteen column is used to reflect operations of the gift shop (if any) and vending machines (cigarette, pin ball and juke box).

The Cost of Goods Sold is determined in the usual manner.

A separate statement is prepared for each Club.

Exhibit 2

Non-Fiscal Aspects of Taxation

By OTTO L. WALTER

"Enormous expenditures caused by the war; injustices resulting from political trickery; ignorance, faulty judgment, and lack of honesty in government circles have brought about an exorbitant and defective tax structure, which is bound to impair morale and result in disaster."

These lines are not a quotation from some modern editorial.

They were written more than a century ago by Baron de Montyon,* the most renowned authority of his day on the non-fiscal consequences of taxation.

Timely as the topic was in his day, it has become increasingly pressing under the impact of modern development. It is surprising that it has been given but little space in the more recent literature on taxation.

Though economists took early cognizance of the manifold consequences of taxation beyond the mere raising of revenue, legislators lagged far behind in the utilization of these factors in tax legislation. When they finally found expression in actual law, they caused a sharp division among economic theorists.

The arguments for and against non-fiscal taxation are as old as the philosophy of taxation itself. As early as Adam Smith we find a strong school of thought condemning taxation for non-fiscal purposes as an abuse of governmental and legislative power. An authority like David A. Wells, co-author of the famous report on New York tax reform (1871/2) declares, quite categorically, that tax legislation which "looks to anything besides the securing of revenue" is not a tax but

an unconstitutional exercise of the taxing power.

Adolph Wagner in his standard work "Financial Science" takes just the opposite viewpoint. To him the non-fiscal, or, as he calls it, the "socio-political" element is an inseparable component of taxation.

Wagner's influence has made itself felt throughout the tax system of Germany, which more than any other country, uses taxation for non-revenue purposes.

The most pragmatic position is that of Judge Cooley in his work on taxation. He is wary of intentional non-fiscal taxation, but admits that the "right of any sovereignty to look beyond the immediate purpose (of its actions) cannot be disputed".

The same view is evident in the decisions of the Supreme Court, which has repeatedly refused to interfere with taxation in fields which were within the constitutional province of the legislator, no matter whether the non-fiscal result was merely collateral or the original intention of the tax. On the other hand, the Court voided numerous tax laws whereby the legislator attempted to extend his sphere of influence by using taxation to the ends of police power. (A comprehensive survey of the Supreme Court's position was made by "The Twentieth Century Fund" in a most interesting publication entitled "Facing the Tax Problem", New York, 1937.)

From the accountants' standpoint the argument seems more or less academic in its aspects. The complexity of economic relationships in our day makes it impossible to levy

*Baron de Montyon (1733-1820) "Quelle influence ont les diverses espèces d'impôts sur la moralité, l'activité et l'industrie des peuples", Paris, Giquet & Michaud, 1808.

a tax without non-fiscal consequences. The legislator who disregards their possible impact risks results which—while not within the range of his intentions—may bring about harmful and undesirable effects. Thus history records that the French and Italian taxes on doors and windows, though intended as luxury taxes, not only had a destructive effect on urban architecture, but also tended to deprive the slum population of air and light.

The circumspect legislator is, therefore, dutybound to include these non-fiscal probabilities in his considerations. By-products of taxation, though they may be, they are nevertheless inevitable. Their dynamic forces extend into the realm of economics as well as that of sociology, politics, and even morals.

By far the most important non-fiscal effects of taxation are felt, with varying results, in the domain of economics.

As early as the beginning of the 19th Century legislators became aware of the efficacy of taxation as a lever to protect and control *currency*. For a long time thereafter export and import duties were the only means used to gain this end. Today the scope of taxation in this field is considerably broadened. In the present "battle against inflation", for example, taxation of income is acknowledged to play a dominant role. Admittedly, there is no more effective means of closing the inflationary gap than the taxing away of excess purchasing power. It is, however, noteworthy that this system of income taxation bears grave dangers if combined with a "pay-as-you-go" feature. Obviously, the average wage earner is inclined to think of his wages in terms of net pay checks. If the unions succeed in obtaining "net wage" agreements, as they did in large parts of inflation-ridden Europe in the early Twenties, the "pay-as-you-go" form

of taxation may have serious repercussions. Not only will it fail to decrease purchasing power, but it will increase the labor coefficient of production, thus not retarding but accelerating the inflationary forces.

Currency control, though, is not the only economic use of non-fiscal taxation. It can be, and has been, successfully employed to reform business structure or to influence the growth of certain forms of business.

Depending on the trend of business conditions, legislators have taken different positions on the question as to whether *corporations* or *private business* structures should be favored by taxation. To the very end of the post-war boom corporate taxation was decidedly more advantageous to big business. Since then the trend in tax legislation has been reversed. Today it may be said that, generally, the double taxation on profits and dividends favors non-corporate business, but in spite of tax measures against the accumulation of surplus and against holding companies, there are still many ways and means, which permit the retention of profits and thus help to save taxes by avoiding or postponing their levy. French taxation after World War I was more advantageous to corporate business forms, because their capital reserves could be employed as a cushion against post-war recession. On the other hand, when Dr. Schacht started his all-out drive against dormant capital resources in Nazi Germany, one of his first measures was to offer tax inducements to partnerships to the detriment of anonymous business structures.

Taxation can also be made to *favor certain forms of business* and obstruct others, without regard to their respective legal structure.

Thus, speculative business organizations with uneven profit cycles, or widely fluctuating results, were drastically impeded by highly pro-

gressive income taxation. The ups and downs of such businesses failed to compensate each other and the equilibrium of risks was disrupted. Hence, "doing business" became a "heads-you-win, tails-I-lose" proposition where profits were taxed away while losses continued to drain business resources. The more liberal provisions in the Revenue Act of 1942 for the carry back and carry forward of losses tended to alleviate such conditions. However, taxation is still widely used against "undesirable gains" in their broadest sense. Foremost in this category are taxes against monopolies, which proved as popular as they were ineffective. A less important variation of the same principle are "windfall taxes", whether levied generally or "ad hoc", like the tax on "unjust enrichment" after the invalidation of the Agricultural Adjustment Act of 1936.

Another example is the lobby-sponsored pipeline tax imposed to discourage the use of pipe lines while favoring railroads. Other taxes with the purpose of restricting "undesirable business" are the chain store taxes which have been passed by various state legislatures, mainly to make good campaign promises to shop owners. Like most nuisance taxes, they proved economically unsound and were effective only when exceedingly heavy. In such cases nuisance taxes actually work like prohibitive penalties. For instance, the banknote tax for the protection of Federal Banking was high enough (10%) to make the profitable issue of State bank notes practically impossible. Comparable effects were produced by the progressive levy on salmon canning and the queer tax on tobacco packages containing prizes. Contrariwise, the German tax on "fugitive capital", while designed to be prohibitive, was not successful, as many preferred to pay the tax

rather than trust developments inside Germany.

Obviously, the same effect which can be achieved by punitive taxation may also be achieved by granting tax advantages. Even Adam Smith temporarily suppressed his aversion to non-fiscal taxation to recommend special abatements for those who cultivated their own land. England subsequently had, and Australia still has, special taxes on undeveloped land which were intended to stimulate improvements. The rules for emergency depreciation embodied in the Revenue Act of 1942 are typical examples of tax legislation intended to stimulate business enterprise. The most extensive experiment in this respect was the German tax reform of 1935 which granted considerable tax advantages to anybody who erected new buildings, improved or modernized real estate, or purchased industrial products. Actually, these taxes were designed not so much to support the favored industries but to stimulate employment. They are, therefore, closely related to our second group of non-fiscal tax aims,—namely, *taxation for sociological reasons*.

The Italian tax philosopher Attilio da Empoli once stated that, basically, all taxation in a capitalistic system serves to make private wealth available to the public domain. Evidently, the motive of *redistribution of wealth* plays the leading role among the sociological aims of taxation.

The "single tax" was one of the experiments tried to redistribute wealth. Its underlying theory, while physiocratic in its concept, still has many followers. From the viewpoint of modern tax philosophy the entire doctrine of the single tax, however, is obsolete.* Today's method of redistribution must of necessity be more direct. The heaviness of our inheritance, gift, and estate taxes is

*The philosopher Voltaire, with remarkable vision, cited the fallacies of the "impôt unique" over 200 years ago in his satire "L'Homme a Quarante Ecus".

admittedly motivated by the intention to hinder the accumulation of large fortunes. Excess profit taxes in their various forms are designed to obstruct boom profits and "take the profit out of the war". In spite of vehement denials, these taxes are socialistic in their basic concept.

Taxation expressly designed to favor labor is still in the formative stage. Of course, taxes like the Old Age Benefit Taxes and Unemployment Insurance levies are not within the scope of our discussion. They are fiscal taxes earmarked for special purposes. Nor are we talking about the fact that heavy profit taxation, by obscuring the cost factors, sometimes indirectly simplifies the position of wage earners' groups. (For details on this subject see Frederic Mathews "Taxation And The Redistribution of Wealth", 1914).

An illustration of taxation with non-fiscal labor motives could be found in the Child Labor Acts of 1916 and 1919, and in the labor clauses of the Bituminous Coal Conservation Act,—all of which were invalidated by the Supreme Court. Yet, the export tax on white phosphorus matches which forced the industry to abandon their hazardous manufacture, was never subject to litigation over its doubtful constitutionality. The pension fund provisions in the latest Revenue Act can also be regarded as steps in the direction of labor taxation.

The ineptness of our tax legislation in the province of labor regulation and the poor showing it made before the Supreme Court is without doubt partly due to the fact that Congress lacks specific constitutional competency to regulate labor conditions and relations. Other legislative bodies, especially in the Scandinavian countries, went much further in this respect. A tax clause

remarkable for its oddity was the short-lived German emergency law which provided special tax advantages for the employers of domestic personnel. Social aims were also served by such experimental taxes as the French *impôt des patentes*, which Seligman in his famous "Essays on Taxation" likens to the Southern privilege taxes. The same intentions were apparent in the maze of now mostly obsolete taxes imposed for the purpose of retarding mechanization of industry.**

Incidentally, such taxes as the Fascist bachelors' taxes, or special taxation on childless persons (which had a forerunner in the *Lex Julia et Papia Poppaea de maritandis ordinibus*, 9 A.D.) are sociopolitical in their aspects no matter in which disguise they appear.

A distinct sector within the realm of sociopolitical taxation is occupied by taxes levied with the intent to *influence health and morals*. Most popular among these are the *sumptuary* taxes. In view of the close connection of public morals and public health, it is sometimes difficult to find the line of cleavage. For example, the liquor and narcotics taxes doubtlessly serve both purposes. The liquor tax is probably the oldest non-fiscal tax in the United States (first enacted as a tariff on distilled spirits in 1790), and also the one most widely used in international taxation. The same purpose is served by wine and beer taxes, although these taxes have a more fiscal character in the United States than in most other countries. English statisticians report a decidedly restrictive effect of the British tax on beer. While this may be true, it must be remembered that such taxes also produce detrimental symptoms like moonshining, smuggling, and bootlegging, which tend to decrease the effectiveness of

** A comprehensive study on this subject was made by Dr. H. B. Petersen, "Taxation and Technical Progress", Leipzig, 1938.

policed production control. The oft-revised taxes on oleomargarine were first an attempt to restrict the use of oleomargarine entirely by a heavy tax on production, sale and import. It was subsequently changed into a nominal tax on the product with a steep increase on butter imitations. It now parallels the tax on adulterated and renovated butter. Taxation on tobacco follows similar lines, although the non-fiscal viewpoint becomes more and more incidental. Other sumptuary taxes are in reality economic, like the sugar tax and most of the oil taxes, which are intended to provide protection for home industries.

In connection with sumptuary taxation it may be interesting to note that nutrition experts have long advocated a tax on the sale of polished rice for the far eastern countries. Such a tax, they hold, would force the people of the lower economic strata to consume their rice unpolished, thus automatically eliminating the main cause of the pernicious beri-beri disease.

Taxes with purely moral intent or with predominant components of *police control* are rare because moral offenses are more efficiently controlled by the use of outright police power. The main examples are the taxes on firearms, which are not only an obstacle to the trade, but at the same time a means of supervision. The same is true for the tax on playing cards, pinball machines, and gambling apparatus. Taxes on betting, transfer taxes against speculation, and taxes against undesirable market practices (like the Cotton Futures Act of 1916) may be cited in this connection. Some authors consider it worth mentioning that almost any kind of tax arouses "tax consciousness" and thereby creates the moral effect of stimulating public participation in administrative problems. The colonial head taxes imposed on the hapless na-

tives of certain colonial possessions of European nations were partly supported by the argument that they might stimulate the desire to work.

It seems, however, that such taxes are actually more of a *political* nature.

Poll taxes, though sponsored under various civic slogans, are mainly imposed to keep the poor away from the voting booth. Political *nuisance taxes* in the worst sense of the word are the various taxes which the Nazis imposed on the "non-Aryan" population, especially on emigrating Jews. For instance, the bachelor tax levied not only on unmarried but on married Jews as well, was not intended to stimulate the growth of families, nor were the emigration taxes designed to prohibit emigration. They simply combined fiscal purposes with the pleasant effect of being a nuisance to Hitler's enemies.

The mixed components of control, fiscal gain, and political nuisance value can be recognized in many import and export *duties*. They are commonly employed to prevent dumping and to protect domestic currency or domestic industry and trade. If this is the case, we have to classify them within the category of economic taxation. In many cases, however, they are only used as a political medium of retaliation, some times only for the purpose of interfering with undesirable foreign trade.

There are, of course, many other possible varieties of sociopolitical taxation, and it is obvious that it would be beyond the scope of this study to give an exhaustive picture of all potentialities. Nor was it intended to evaluate the different forms of non-fiscal taxation in their aspects *de lege ferenda*. It is incapable, however, that vast fields for the exploration of this subject still exist for legislators, economists and tax experts beyond the commonly defined fiscal borderlines of tax legislation, where taxation was once supposed to end

Monthly Examinations Under War-Time Conditions

By the MONTHLY AUDIT COMMITTEE of
The New York State Society of Certified Public Accountants

Extension of Monthly Services as a Result of Governmental War-time Regulations and Tax Laws

The accountant who, to a large degree, conducts a monthly audit practice has found that, as a result of governmental wartime regulations and tax laws, there has been an extension of his usual monthly services calling for his attention to matters beyond the scope of his auditing engagement. These involve largely business services and they are not responsibilities which the independent public accountant assumes in his usual professional work.

The new services which the accountant has thus been called upon to render have caused the monthly examination to assume new significance and importance. The examination is no longer simply a periodic review or audit of a company's business, in order to report on its operating progress and financial status, for the guidance of its management and the information of its credit grantors. New demands upon the services of the accountant have arisen because the Government has found it necessary, in its fight to curb inflation, to prescribe rules and regulations respecting business operations which place definite restrictions upon commerce and industry. The conduct of business, within the framework of such governmental wartime regulations, is of continuous and increasing concern to the merchant or manufacturer who must conform his product to established specifications and abide by rules fixing ceiling prices upon purchases of raw materials and sales of manufactured goods.

Among other things, regulations have been promulgated with respect to inventory limitations, installment sales, price control, hiring of employees and the fixing of their compensation.

Although the accountant cannot accept the responsibility of assuring a client's compliance with regulatory laws and his avoidance of the serious penalties that will follow any violations thereof, the client nevertheless looks to the accountant for advice and suggestions on these matters. Consequently, the accountant rendering such service must closely study the wartime rules and regulations respecting business practices and procedures, in addition to keeping himself informed on governmental pronouncements on matters concerning all independent public accountants, such as income tax regulations and rulings, S.E.C. regulations and rulings, etc.

In order to exercise controls over industry and commerce the Government requires the preparation and filing of a multitude of reports, and the merchant or manufacturer is required to keep records which were not maintained heretofore.

The accountant whose engagement is on a monthly basis usually has a closer relationship to his client than one performing only semi-annual, annual or occasional examinations. By reason of his frequent personal contacts with his client he has become a general business counselor. He does not, however, undertake any new responsibilities in his professional capacity as an independent public accountant. He is expected

to keep abreast of the flood of rulings relative to all phases of his client's business activities. This expanding wartime service necessarily adds to the time required for the usual monthly visits. However, it is a vital service and, although there are serious manpower shortages, the auditor must add to his customary program to give primary consideration to wartime regulations and probably arrange to curtail certain features of monthly audits or spread his usual work over longer periods of time. In view of the fact that the governmental wartime regulations require immediate and continuous compliance, the client's performance should be inquired into currently in connection with the auditor's periodic visits.

It is not the purpose of this paper to cover the requirements of the numerous regulations issued by the Office of Price Administration, the War Production Board and other governmental agencies. It is intended herein to emphasize the fact that many clients now expect the auditor to expand his services to embrace new measures, not included in an audit program, so as to aid him in managing his business efficiently and preserving it under the wartime controls established by the Government.

Price Regulations

In certain industries, for instance the ladies' outerwear apparel industry, the businessman is required to adhere to established ceiling prices for the sale of garments and to keep his costs within definitely prescribed limits. Inquiry should be made by the auditor to determine whether the necessary records are being maintained currently by the client, because failure to comply with the regulations may bring penalties that will affect the client's ability to continue in business.

Installment Sales

In the installment business cognizance must be taken of governmental regulations with respect to down-payments, that must be demanded of customers, and the specific rules that have been promulgated with respect to the liquidation of outstanding accounts receivable.

Inventory Control

In the retail business rules have been established limiting the receipt of consumer goods by controlled merchants and providing for periodic inventory reports. It is obviously of supreme importance to the client that he should always be in a position to acquire adequate stocks to cover prospective business. The amount of merchandise a client is permitted to receive will depend upon the periodic inventory reports submitted by him. In this connection, the auditor may be called upon to assemble the necessary data for the reports to be filed with the War Production Board. He may also be expected to prepare appeals for more than the "allowable receipts" in cases where it is apparent that the client cannot function unless relief is granted. In addition, the client may also require the preparation of purchase budgets so that he will acquire only the amount of merchandise permitted and within the period during which the delivery of such merchandise may properly be received.

With respect to purchases, the auditor should be alert to notice that the "allowable receipts" for the first month of a quarter do not exceed one-third of the quarterly allowable receipts. The auditor should also inquire into the client's commitments to ascertain whether deliveries are specified for periods in which there are "allowable receipts".

Wage Stabilization

In auditing the payroll, the auditor should apply to his work an under-

standing of the Wage Stabilization rules which require proper authorization for payroll changes. Unauthorized bonus payments or other special compensation may be disallowed upon audit by the Government. The auditor's assistance in preparing formal requests for approval of contemplated wage and salary adjustments is generally solicited by the clients. The penalties for making payments in violation of the rules are quite severe, and this work may conceivably be regarded as even more important than the usual steps taken in auditing payroll. The seriousness of making unauthorized payments is evident when we realize that the client may be disallowed the entire wages or salaries, paid to employees receiving unauthorized amounts, as income tax deductions and that he may also be penalized under government contracts when allowable costs are to be determined.

General

The auditor's service to his client may extend to the preparation of appeals for relief in cases where it is found that strict compliance with applicable regulations would result in unreasonable and exceptional hardship. In this connection, the auditor may collaborate with other accountants in assembling data for petitions for industry-wide relief from inequitable rules.

Ration Banking

In the food industry ration points have assumed very great importance and the auditor should take cognizance thereof in his audit program. In the wholesale grocery field, for example, purchase bills now show not only the money value but the point value as well. The purchase book and the sales books, as well as individual accounts receivable and payable, are kept in point values as well as in dollars, and controlling accounts are kept to reflect

the total points receivable and payable.

The audit program should include a test of the receiving and shipping records to see if point costs and point sales are accurately recorded. The ration bank account can be reconciled like the regular bank account and the auditor should occasionally check the client's reconciliation.

The auditor should test check the accuracy of the figures on the client's monthly report of point sales and points in bank which are submitted to the Office of Price Administration.

The audit program should recognize that, to a great extent, the fraud possibilities in the matter of points are as great as those involving cash.

Renegotiation of Contracts

The monthly audit program should be enlarged to include a consideration of the problems involved in war contract renegotiation. The auditor should ascertain that the accounting system provides for accurate classification and recording of expenditures in connection with the contract, and he should review the expenditures to see that proper allocation has been made between business subject to renegotiation and that which is not so subject.

In addition, consideration should be given to the different treatment provided for certain items under renegotiation and for Federal tax purposes. Such items include net operating losses, war losses and amortization of emergency facilities. If the client may be subject to renegotiation, financial reports, prepared at the conclusion of monthly audits, should call attention to the possibility of renegotiation and the consequent revisions of the profits shown.

Taxes

New tax legislation has added to the monthly audit program the Victory Tax and the Withholding features of the Federal Income Tax.

The accountant should make certain that adequate records are kept and make sufficient tests to give him reasonable basis for the opinion that the correct amounts are withheld from wages and salaries. The client should be kept informed on the regulations and provided with the official tables which simplify the work of withholding and minimize the possibility of error. If the required returns are not made out by the accountant they should be examined as part of the monthly audit program.

Constant attention must be given to the methods published as they are developed with respect to relief provisions of the Excess Profits section of the tax law. In some cases immediate action will be indicated, whereas in others preparation should be made for a year-end stand on relief. This is a broad subject and is touched upon lightly in passing, but the refund possibilities and future tax savings are important enough to be made part of monthly audit consideration.

Because of the high rates of taxation in effect today, reserves for income and excess profits taxes should be set up monthly and these reserves should perhaps be funded. Cash should be set aside or Tax Anticipation Notes purchased to prevent a serious strain on the financial structure when the taxes become due.

The client and his office personnel should be kept informed on tax laws and regulations through the medium of bulletins, and much work can be saved if they are currently advised on these matters.

Administrative Problems for Accountants Created By War-Time Conditions

It is paradoxical that, at a time when business is faced with the most complex problems in its history and urgently requires additional services of accountants, the Certified Public

Accountant is being forced to ration his service because of manpower losses. The seriousness of this manpower question is evident when we bear in mind the fact that the New York State Society of Certified Public Accountants and the American Institute of Accountants have issued bulletins which state there is to be no reduction in the amount of independent verification or year-end auditing work in connection with balance sheet audits leading to certified reports.

In order to retain the services, for the maximum time possible, of seniors engaged in important war work, requests should be made to Selective Service for occupational deferments. Recent releases of the New York State Society of Certified Public Accountants outline the method of obtaining these deferments.

The most experienced seniors should be shifted to supervisory or tax work so that they may be enabled to assist the partners who would thereby be freed to handle the unusual problems currently arising out of governmental regulations. The program of the seniors should be so arranged as to make it possible for them to supervise several audits at the same time. In many instances this will avoid delay in submitting vital information to the client. Audit programs should be expanded to include more detailed instructions with respect to each client and the various steps in the audit program studied as to their present essentiality. By alternating steps in various months, sufficient audit protection can be achieved with a reduction in time consumed. Scientific listing and sampling methods should be adopted wherever possible.

It is possible, in many instances, to effect a considerable saving of time by arranging to have certain schedules and data prepared by the clients' personnel.

Monthly Examinations Under War-Time Conditions

Wider columnar work papers should be used in order to minimize monthly repetition of captions and schedule headings. The preparation of complete work papers is more important than ever before in order that new men may more easily be guided in proper schedule preparation. Because of the inexperienced help and personnel turnover, work papers should be more thoroughly reviewed by the partner or senior in charge.

Wherever possible audits may be made on a bi-monthly basis. These may be divided into two groups, one group of audits to be performed each even month and the other group each odd month, arranging the audits so that the end of the client's fiscal year coincides with the last audit period for such year, thereby spreading the work evenly and reducing considerably the time required for each audit.

Financial statements may be rendered every two or four months instead of monthly. In cases where detailed reports are prepared the comments usually can be materially curtailed except for the annual or semi-annual report.

In specific industries reports should be standardized to embrace certain selected essentials. Progress reports, including comparative balance sheets and cumulative and current operating statistics, may be prepared on specially designed forms left with the client and filled in at the conclusion of each audit. This will result in a material saving of the time of typists and conserve a certain amount of stationery.

Clients should be encouraged to make necessary system revisions and changes in duties of employees in order to improve internal control. In cases where the control is ade-

quate the amount of detail work can be reduced. This applies especially to checking extensions, footing, numerical sequence, etc. As an illustration, where petty cash disbursements are not unusually large, the fund may be counted only two or three times a year on a surprise basis and much of the vouching of slips omitted.

Mergers and consolidations of accounting firms should be encouraged. Accountants or firms that will complement each other, such as a specialist in tax matters and one engaged primarily in audit work, would make a good combination which should be beneficial and enduring beyond the war period. The accountant, who is adequately staffed, may enter into an association with an individual practitioner who requires the facilities of a large organization to which he can contribute administrative and supervisory services with resultant mutual benefit.

The application of some of the foregoing suggestions and the tightening of supervisory and administrative control over the field work, should enable most practitioners to render adequate service to their clients under present day conditions. Any curtailment of services which is found necessary should be applied first to clients in non-essential industries, inasmuch as the major task of our profession today is to aid in the furtherance of the war effort.

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Philosophy of an Accountant

By NORMAN E. WEBSTER, C.P.A.

I did not choose the subject for this talk. It was assigned to me by your Program Director who told me when and where I was to come before you.

To me the occasion seems similar to a special examination to which a teacher may call a student in order to learn whether there is any likelihood that he can make the grade at the completion of the course. That may not be a good comparison. But certainly since I knew that I must undergo this test, my feelings have been exactly the same as those I experienced when an instructor told me that he doubted my ability to come through but he would give me a chance to prepare for a special examination.

In cramming for those tests I tried to get some little idea of what the subject was about. At least I wished to make as sure as I could that I knew the easy parts of it, thinking that if the teacher wanted to be rid of me by kicking me upstairs, his examination would not be wholly on the hard nuts, but would cover also some of the easier topics on which, with a little preparation, I might show off.

And that is the way in which I have prepared for this test. The assigned subject began and ended with ten-letter words, respectively of four and three syllables. They loomed large and difficult. But between them were two two-letter words. These seemed to be my size. So I began with them, and naturally I went to the dictionary.

Of these, "an" came first alphabetically. But as I started for that word it occurred to me that to start with "an" would be to put the cart

before the horse, whereas I ought to begin in an orderly way. So I turned to "of", but only to be appalled. To that dwarf word of two letters the book gave almost two thirds of a page. And as I read what was there printed I was reminded of the comment of an old lady who, when asked about her reading of the dictionary, said: "It is very interesting but it changes the subject so often." For "of" there were twenty definitions, of which one was an obsolete use and one was colloquial. The first eighteen each began with the word "indicating." And as I read them and tried to understand them, it seemed that "of" in the English language was like "X" in algebra in that what it indicated was unknown.

So hoping that tonight's examination might not embrace many questions on the word "of", I decided to pass over that word for a time, and see whether the word "an" might not be easier.

At this time I was reminded unhappily that some one had said that the simplest, most common words are the hardest to define. And from this I reasoned that an understanding of those words might be equally or more difficult. However I recalled some of those moralizing admonitions about courage, and determined to go on with "an". Please be sure that I was not trying to answer the question "How old was Ann?" I was serious and had no time for foolishness.

And here I demonstrated the truth of the adage—"Virtue is its own reward." Instead of the fourteen and one-half inches of small type given to the word "of", only three inches

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were used for the seven varieties of "an". I knew I was on the right track. And as I probed more deeply into the subject I found that of the seven varieties, three were prefixes, two were suffixes, and one was a conjunction. There was but one meaning for my "an".

Naturally I was pleased to believe that I had found an easy approach to the subject of this examination. It should not be hard to master "an". I found that "an" indicates the singular of its noun and that it is an indefinite form. But as I did not quite see the application I thought perhaps I had gotten off with the wrong foot. After all, the little words are the hard ones. Pronunciation changes with localities and spelling often has changed to meet the local pronunciation. The big words which we, of the English tongue, have induced to leave their native lands are the words which freeze thoughts. And so, remembering your Greek, it is wholly unnecessary for me to remind you that by its etymology "Philosophy" means "Love of Wisdom".

That left only "Accountant" to which I turned with confidence. The Committee on Terminology of the American Institute of Accountants in Accounting Research Bulletin No. 7 commented upon the dictionary definitions of "account" and its derivatives, and suggested that the attention of dictionary publishers might well be called to the special uses of certain words as against their general uses. A similar suggestion was made by the editor of an accounting magazine over sixty years ago. But so far as I know, nothing as yet has come from these suggestions.

Thus far, as I have told you, I had studied "of" and "an" and "philosophy". Then for "accountant" I recalled a long-used definition and it seemed that, presumably because I fitted the job, I had been assigned

the subject of "Love of Wisdom of a Singular Indefinite Bookkeeper Out of a Job". Perhaps I was expected to make a confession. But that I shall not do because some of you, who may have been considering me for the job I would like, may hesitate if I admit that I do not use the word "expert" as a part of my professional appellation. I shall not plead guilty to your indictment though I may convict myself by protesting too much.

However "an" is not only singular, it is also indefinite. Even if probable, it is not certain that in the subject handed to me the word "an" was intended to indicate me. In law there is a pleading called "confession and avoidance". I have declined to confess, but I shall try to avoid. For this purpose I shall assume that "an" indicated "any" accountant. And to be fair in so applying it, I shall relate it first to one accountant and then to another and another. Each will be one whom, so far as I know, I never met, but whom I know, perhaps better than he realizes, through his answer paper in some C.P.A. examination.

As you are aware we of the Board of C.P.A. Examiners know the Candidates only by numbers. That prisons also use that system of identification I believe is only accidental. I do not know of any actual and necessary relations between the two systems. Unfortunately there have been a few persons who, after receiving their identification numbers in the C.P.A. examinations, have changed their places of residence and taken up new numbers. I advise you not to do that. There might be danger of getting the numbers transposed. And embarrassed as one would feel to get a 40 in the examination in law, it would be even worse to have the law give him a term of 40 at Sing Sing.

My acquaintance with C.P.A. candidates has been rather extensive.

During about thirteen years I have met many thousands. Most of them I never saw though some have come to the examinations repeatedly. Physically I do not know whether they are tall or short, large or small, blonde or brunette. I would not recognize them if they were here now. In name each is a John Doe. But even so I think I know something of their mental attitudes, their insides, their philosophies.

One group I suspect are humorists. They seem to wish to awaken the Examiners with something novel or to amuse them with games. If any of you have seen the printed C.P.A. examination papers and the blank sheets furnished for the Candidates' answers, you may have noticed that the questions are designated by Arabic numerals in serial order, and that the instructions on the blank sheets call for placing the question numbers in the left margin at the beginning of each answer. Here is where some Candidates display their sense of humor and strive to entertain the Examiners with little games. They do not number the sheets of their answer papers, thereby giving the Examiners a modified form of Solitaire. And a few omit the question numbers from some of their answers which perhaps is because they recall the old game of Find the Thimble.

Then some Candidates seem to wish to distinguish themselves from others even as a Nazi soldier, if in mufti, might indicate his calling by the goose step. Apparently for such a purpose some adopt a back hand script or other uncommon writing. Perhaps they give more thought to the appearance of their answer papers than they do to the contents of the answers. And also it seems that some wish to assure the Examiners that they have studied elementary arithmetic. And to show that they know not only the Arabic notation used in the numbering of the printed

questions, but that they are conversant also with the Roman notation, they use the latter to identify their answers. Again some would impress the Examiners by the length of their answers and use one to three sheets where a correct answer could be given in a few lines. But sad to say, those long answers often seem to be smoke screens which, however, do not conceal the fact that the Candidates are not able to answer the questions correctly.

The answer papers turned in by some Candidates may be intended to disclose their opinion of the Examiners. Perhaps they think of us as not only old fashioned in ideas and methods, but old in years with failing eyesight. So they thoughtfully try to help us out with large bold penmanship, in some cases writing only on alternate lines. Much as we appreciate their thoughtfulness, we cannot raise the marks for that. Many Candidates do not approve of the form in which the questions are printed and the instructions as to how the answers are to be identified. Instead of placing an Arabic figure in the margin at the left, they put the number of each answer in the middle of the sheet. Of course variety is the spice of life, but really Examiners do not care for such flavors here. The instructions on the printed question paper state that the questions should not be rewritten. And those printed questions are turned in with the answers. Even so many Candidates do rewrite the questions, some giving them verbatim but more rephrasing them slightly in their answers. The latter I suspect are written while the Candidates are groping for the answers. But the reason for the former I cannot guess. Perhaps it may be the expression of what I once heard described as foolosophy. Some Candidates write short, complete and correct answers, but they do not stop there. They follow

with long repetitions of those answers differently expressed, sometimes in conversational words as contrasted with the technical words of the preceding brief answers. There their philosophy is evident. They are writing down to us. Perhaps they need to do so. And always there are some Candidates who answer more optional questions than are called for. Do they hope for 100 plus? Or do they think that, as in algebra, a multiplication of minus quantities may produce a positive result?

As an Examiner I have noted other characteristics of some Candidates. I am uncertain whether these indicate their philosophy or the lack of it. A philosophy, I think, generally will impel and guide our actions. The instances I now have in mind seem to be those where no action was taken. That might indicate the absence of a philosophy, though I would prefer to think that I am at fault in that I have not been able to discover the philosophies of those Candidates.

Still it seems almost certain that some Candidates do not read the question papers carefully. The instructions there printed are meant as much for the benefit of the Candidates as for that of the Examiners. Whether or not the Candidates think they may get anything of value to them from the instructions, they should read and understand them, if for no other reason than self discipline. When they begin work as assistants in the public practice of accountancy, quite probably they will be given both general instructions of an administrative nature and specific instructions for the particular engagements to which they are assigned. And if they treat those instructions as casually as they have those given in the C.P.A. examinations, that may be just too bad.

The comparison of the examination to actual work in public practice

is not far fetched. The questions set for the examinations in commercial law, and in the theory and practice of accounting and of auditing are all examples of situations which accountants meet in their work. The questions contain all the facts necessary for the preparation of correct, complete and concise answers. And the instructions are not unlike those they will be expected to follow later on. They will, therefore, be acting wisely if they read and conform to the instructions.

And, finally, there is the matter of budgeting in the examinations. Probably all Candidates are familiar with that word. They have seen it in text books, perhaps they have met it in their experience. Its most common use perhaps is in connection with the cash or with all the working capital. There it calls for a study of a given situation from two points of view namely; first, how much will be needed for the work which is to be done; and secondly, how much can be done within the limits of the available cash or working capital.

But the matter of budgeting is not limited to cash. It applies also to materials and supplies. The priorities of which we hear so much in this war time are a form of budgeting not under one's own control, but enforced by the Government. However, that does not change its nature. Similarly plant capacity exercises an over-all control to which a budget must be conformed.

And time is another control on a budget, a control even more fixed and inelastic than cash, or material, or plant. It cannot be stretched beyond twenty-four hours a day and the number of men who can be employed at productive operations. It must be divided and apportioned so as to utilize all of it, but with provision for the unforeseeable interruptions to which every man-directed enterprise is subject.

The New York Certified Public Accountant

The examinations need a similar budgeting of the Candidates' time: so much for reading the optional questions and the selection of those they will answer; so much for each question, not necessarily the same

number of minutes for each; and so much for a final review or clean-up after all the answers have been written. I fear that such a plan is not a part of the philosophy of a large proportion of the Candidates.

Let Your Heart Decide
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The Accountant's Task of Writing

A Table of Ratios

By JOHN MANTLE CLAPP

THE nature of an accountant's duty burdens him with a task which men of other professions escape. After finishing an assignment of investigation and diagnosis, he must turn to a wholly different activity and explain to his client, in writing, what he has done, what he has found. Physicians and engineers have merely to do their work, only on rare occasions to explain it in laymen's terms. But every accountant must be a writer, whether endowed with a flair for expression or not. Most accountants, in fact, are not language-and-rhetoric men so much as mathematicians, with whom putting words together for other people is a wearying chore. Further, the writing required of the accountant, the explanation of technical points with exactness, completeness and objectiveness yet in a form that laymen can grasp, is difficult in the extreme. Members of the profession accomplish the task after a fashion but the cost in time and effort is heavy.

If some of the extra-professional labor that goes into preparing reports, memos, letters of advice could be saved, the benefit would be very considerable, to accountants and to their clients alike. For many accounting reports and memos are not only hard for their authors to write but exceedingly hard for those addressed to read.

The subject comes up now and then for discussion at professional meetings or in professional journals. It was on the program of the American Institute in 1941. Last year some members of the State Society asked me to organize a Refresher Course in Writing to look into the matter. The following remarks, based

on the first series of group meetings, as well as a sizable acquaintance with individual accountants and their writing, are a sort of report of progress. Needless to say, they do not touch the technical aspects of report-making but merely offer suggestions which practitioners may find helpful in giving their written material a satisfactory written form. Just now, when accountants are working days, nights and Sundays, without prospect of let-up for years to come, anything that will ease the load of incidental labor should merit investigating. Fortunately, much can be done quickly by means of an adult approach. A practitioner who will take a little time, even in his present crowded days, to apply some of these suggestions in his daily routine, will carry more easily the work of the hectic months to come.

Much of the advice given young accountants on this matter overlooks the real point of difficulty. It deals with aspects of detail correctness—using words correctly, avoiding "jargon," placing modifiers properly, making all sentences parse. While this is all to the good, carelessness about such matters is probably less frequent with the accountant than with men in other fields, as his whole training focuses upon detail correctness.

But detail correctness is only a minor difficulty. The real problem for every practitioner is always the same: How can I combine exactness, completeness and objectiveness of statement with a form of expression that will carry my meaning to laymen readers, when their own talk, writing and thought is quite different in character? Particularly as the vehicle to be employed, our

magnificent but haphazard English language, the deposit of centuries of talk by careless millions, is itself inexact, fragmentary and shot through with emotion! For the members of no other calling is the problem of harnessing our wild language to sober statement of fact so difficult and so insistent as for accountants. Engineers and medical men, as a rule, talk and write only for others of their tribe, but the accountant must write—and talk—primarily for the layman from whom his business comes.

When the Refresher Course in Writing was under consideration one accountant of standing insisted that accountants' writing offered no special problem. "All you need," he said, "is to know how to write good English and you learn that by reading Macaulay, Carlyle, Emerson and the rest of them." He forgot that essayists and historians do not have to make technical material intelligible to non-technical readers. Moreover, the movement of their thought can be leisurely; they can utilize the coloring of emotion, the relief effects of stories and digressions. The accountant is not sailing the open sea; he must keep to a definite channel and arrive on time, and the devices he can employ are sharply restricted. The principles of good English govern business writing as truly as literary writing but they must be applied very differently.

The differences center around one main fact. The accountant has to express himself at all times in explicit statements. The conveniences of suggestion, a matter of course in common talk and in the breezy writing of salesmen and the advertising fraternity, are not for him. Similarly, he must use words always in their literal senses; metaphors and other figures of speech have no place in his writing. Now composing even a dozen sentences without recourse to suggestion, and wholly in literal terms, takes effort. Keeping it up through

several pages of Notes and yet expressing ideas so that lay readers find them clear and impressive is almost as difficult, at first, for many a competent practitioner as walking on his hands. How does one learn to do it?

By keeping in the foreground of consciousness at all times a *sense of the reader*—as if he were across the table from you—what he needs to know at each step in order to follow your explanation. Begin by examining and comparing the work of other men, able men, to check their methods of doing this and their success in handling various types of writing situations. That is what is done at Refresher Course sessions. Members bring in specimens of their own work or that of other men to be analyzed candidly and searchingly by the group.

For example, a necessary feature of accountant writing is completeness. Very often a point to be presented is complex in nature. It cannot be dismissed with brief generalities. Sufficient detail must be given to bring out—explicitly—the conditions, the modifying factors. But how much is a sufficiency, for the case in hand? One specimen analyzed at the meetings was a paper written for college students by a leading member of the profession, a beautifully simple exposition of an important aspect of the accountant's work today. Members of the group, however, while admiring its clearness, thought that simplification had been carried too far, that the paper had not indicated the complexity of the procedure outlined.

On the other hand, in a paper from a professional meeting, explaining a change in the tax laws, the writer's desire for completeness led him to introduce details which members of the group felt to be quite unnecessary, to say the least:

Likewise, if after our declaration of war, the enemy occupied an area in which the taxpayer's

property is situated, the property is treated as destroyed or seized on the date on which the enemy gains control of the area.

In many cases the exact date of enemy occupation cannot be ascertained. Accordingly, the taxpayer may report the loss as occurring at any time after the last date on which the United States, or a friendly country, had control and before the earliest date on which the enemy was in full control. To illustrate: let's assume that fighting starts in a certain area in December and in January the enemy assumes complete control. Here, the taxpayer may treat the loss as occurring either in December or January.

Similar rules are also provided for cases of property actually destroyed or seized in the course of war operations, so that the loss may be claimed as of any date on which it is determined that the property was undestroyed and the earliest date on which it is determined that the property was actually destroyed. Let's say that a bombardment starts on April 15, and upon reoccupation it is determined that the property was destroyed during that period, then the loss may be claimed on any date during the bombardment.

However, if the enemy is in full control of a certain area before the date on which the property is determined to be destroyed, the latest date for which the loss may be claimed is the earliest date on which the enemy obtains full control.

As it chanced, another professional paper of almost the same time had covered the same matter, in much less space:

If, after the date war was declared, the enemy occupies an area in which the taxpayer's property is located, this is treated as lost upon the date of such occupation. As the exact date of occupation

cannot be established, the taxpayer may treat the loss as occurring any time after the latest date on which the United States, or a friendly power, had control of the area and the earliest date on which it was occupied by the enemy. With respect to property destroyed as a result of military or naval operation, if the exact date is not known, the taxpayer may claim his loss on any date between the last date on which it is known that the property was not destroyed, and the first date on which it is known that the property was already destroyed.

Members of the group found this much better. All necessary details are covered, and well *packed*, so that each is grasped readily even by laymen.

This is a most important feature in accountant writing, the packing or arrangement of details so that they flow smoothly. To achieve such orderliness takes time, but when the habit is rooted you become able to arrange your material quickly. The group found in one of the Accounting Releases of the S.E.C. an excellent illustration of completeness in the explanation of a point of procedure—full and precise statement of details and an arrangement that is trim, orderly, easy to follow:

Where a purchase is made of defaulted bonds with defaulted interest coupons attached, it is clear that the purchase price covers not only the right to receive the principal of the bond itself, with also the right to receive any payments made on the defaulted interest coupons purchased. Under these circumstances the price paid cannot be deemed to reflect only the cost of acquisition of the issuer's obligation to pay the principal sum, but must instead be considered to reflect as well the cost of acquisition of the issuer's obligation to pay the interest coupons already matured. In the usual case, moreover, there

is no satisfactory basis on which to allocate the total price between the bond on the one hand and the defaulted interest coupons on the other. Under such circumstances the bond and defaulted coupons should be treated as a unit for accounting purposes, and collections on account of the defaulted interest coupons should be treated not as interest on the sum invested, but rather as repayments thereof. Moreover, in view of the uncertainty of eventually receiving payments in excess of the purchase price, it is my opinion that ordinarily no part of any payment, whether on account of principal or the defaulted interest, should be considered as profit until the full purchase price has been recovered.

Packing the details with patient consideration of the reader's requirement—as the ships in our invasion operations are so loaded as to facilitate immediate use of their contents in the hurry of landing—is a most important factor in completeness.

Along with the problem of completeness goes, of course, the problem of condensation; the space available for Notes or Instructions is usually strictly limited. Sometimes, as in the following, compression is carried so far as to render a statement unintelligible to any but a specialist in the topic:

The benefit, of any, of the maximum alternative effective individual tax rate of 25% or corporation rate of 25%, can be applied.

This other passage, from a Note in one of the reports represented in the Table below, is both concise and clear; the writer has kept in mind the limits of compression:

Gasoline and oil and other materials and supplies (including spare parts, both new and old) are carried generally at cost, with reserves of \$. (based principally on estimated useful lives of related items of equipment) de-

ducted in respect of spare parts for flight equipment.

The main thing for an accountant to do in order to turn out his necessary writing in satisfactory shape more quickly, is to center his attention for a while on matters of arrangement, of *structure*. In his heart-breaking task of expressing ideas with accuracy, completeness and objectiveness yet in a form that laymen will find "natural," and doing this without aid of suggestion, he must rely mainly upon the way he arranges explicit statements. Therefore, whether composing a troublesome key-sentence of Comment or putting together a lengthy memo, concentrate your attention upon loading your ship to facilitate unloading at the particular beach-head you have in mind. At the Refresher Course meetings reports, memos and papers were brought in for examination, many of them valuable in content and written by men of standing in the profession. Lining these up with reference to features of structure revealed special difficulties involved in various types of writing situations. Further study showed the degree of success achieved by writers in using this or that device to meet the difficulty. Checking passages in this way, your own or those of others, starting with the obvious points of external form, the primary elements of structure—paragraphs, sentences, clauses and words—reveals much that is significant. Such objective measurement often enables you to account for a decisive but subconscious impression of a passage or article.

The Table of Ratios opposite, a by-product of the Refresher Course meetings, shows how the primary elements of structure, the building blocks of communication, are used in current work by a number of accountants of standing. The formulas, wise or otherwise, followed on various occasions appear in the analysis of 16 representative reports, memos and papers.

The Accountant's Task of Writing

	REPORTS			COMMENTS & MEMOS					PAPERS—DISCUSSION			PAPERS FOR RESEARCH STUDENTS			NON-TECHNICAL			
	The Blank Co. 1	The XYZ Co. 2	The Import Co. 3	Smith & Co. 4	Sanitary Hospital 5	Comments on Pan-American Airways Corp. 6	Memo to Subscribers 7	S. E. C. Release 8	Memo to Clients— "Terminations" 9	Wage & Salary Administration 10	War Contracts— Costs & Profits 11	Some Wartime Problems of Public Accountants 12	"Physician to Business" 13	Form & Content of the Balance Sheet 14	Excess Profits Tax and Reorganizations 15	Investment Company Act of 1940 16	N. Y. Times Editorial A	Saturday Evening Post Editorial B
WORDS	2741	1724	1357	1703	1803	1679	1038	458	2005	2190	4307	3644	2866	3104	6804	7200	324	971
PARAGRAPHS	63	37	23	48	44	15	9	3	15	24	64	30	43	39	64	96	4	12
SENTENCES	102	68	45	87	71	41	34	11	68	79	185	100	113	145	182	202	14	47
PARAGRAPH																		
Aver. Length	42w.	47w.	75w.	35w.	41w.	112w.	115w.	153w.	134w.	91w.	67w.	67w.	67w.	80w.	106w.	74w.	81w.	81w.
Single Sentence	60%	56%	22%	35%	37%	37%	none	none	none	21%	19%	13%	13%	6%	8%	36%	none	none
Paragraphs																		
SENTENCES																		
Aver. Length	27w.	25w.	30w.	20w.	25w.	41w.	31w.	42w.	30w.	28w.	23w.	36w.	26w.	21w.	37w.	36w.	23w.	21w.
1-10 wds.	11%	2%	5%	18%	4%	5%	6%	none	7%	16%	8%	3%	18%	6%	1%	3%	13%	13%
11-40 wds.	74%	92%	68%	79%	86%	59%	74%	54%	73%	65%	92%	61%	76%	88%	59%	61%	87%	85%
41-70 wds.	14%	5%	27%	3%	9%	25%	20%	37%	19%	18%	—	30%	6%	6%	30%	31%	—	2%
over 70 wds.	1%	1%	—	—	1%	1%	—	9%	1%	1%	—	6%	—	—	10%	5%	—	—
Dumb-bell Sentences ..	none	12%	24%	none	4%	none	24%	none	23%	8%	7%	4%	7%	3%	1%	6%	none	none
CLAUSES																		
Aver. Length	18w.	17w.	16w.	15w.	17w.	19w.	20w.	21w.	12w.	14w.	13w.	14w.	13w.	12w.	17w.	19w.	12w.	10w.
Word Length																		
1-syllable	71%	61%	63%	62%	60%	54%	50%	59%	59%	57%	48%	58%	61%	58%	62%	55%	63%	66%
2-syllables	10%	19%	19%	21%	20%	21%	20%	20%	21%	20%	20%	19%	17%	17%	15%	15%	19%	20%
3-syllables	14%	12%	11%	11%	13%	14%	14%	17%	12%	14%	17%	12%	17%	16%	12%	21%	12%	9%
4-syllables	4%	4%	6%	3%	5%	7%	13%	3%	5%	6%	9%	8%	3%	8%	8%	6%	5%	3%
5-syllables	1%	4%	—	2%	2%	3%	2%	2%	1%	2%	4%	2%	1%	1%	1%	2%	1%	1%
6-syllables	—	—	—	1%	—	1%	1%	—	1%	1%	2%	1%	1%	—	2%	1%	—	—

RATIOS. PARAGRAPHS. SENTENCES. CLAUSES. & WORDS IN ACCOUNTING WRITING.

RATIOS—PARAGRAPHS, SENTENCES, CLAUSES, & WORDS IN ACCOUNTING WRITING

The material consists of:

Five reports prepared for clients by leading firms.

Comments, in the 1942 Annual Report of the Pan American Airways Corp.

A memo of instructions to subsidiaries, by a large company.

Accounting Series Release No. 36, S.E.C.

Memo prepared for clients regarding a proposed "Terminations Clause."

"Wage and Salary Administration," *J. of Acc.* Feb. '43.

"War Contracts, Costs and Profits," *N.Y.C.P.A.* Aug. '43.

"Some War-Time Problems of Public Accountants," *N.Y.C.P.A.* Jan. '42.

"Physician to Business," *Accounting Forum*, C.C.N.Y. Sept. '40.

"Form and Content of the Balance Sheet," *N.Y.C.P.A.* Mar. '42.

"Excess Profits Tax and Current Reorganizations," *J. of Acc.* Feb. '43.

"The Investment Company Act of 1940," *J. of Acc.* Feb. '42.

For comparison with other current informative writing, recent editorials in *The New York Times* and the *Saturday Evening Post* are also analyzed.

The ratios indicated are tentative in the extreme, since the specimens, though typical, are very few, but even so, examination of the percentage figures throws light particularly on one of the baffling problems of accountant writing—how to relieve the heaviness of closely packed technical material. Some remarks may be made on the four elements as represented in the figures:

Paragraphs: In professional papers the paragraphs vary, as in non-technical articles, from a few lines to an entire page. But in routine reports, such as the first five of the Table, they average under 50 words, in spite of occasional long ones. In comments and memos, however, they are uniformly long. A feature of

accountant writing, indicated at least by the Table, is the large use of single-sentence paragraphs. These are to be expected in routine reports, where minor items demand separate though brief mention. Apparently accountants have learned the convenience of the form for papers and articles. In one of the research papers 36 per cent of the paragraphs are of this type.

Sentences: The length of sentences is a basic problem in an accountant's writing, from the standpoint of effective transmission of his thought to laymen. The sentences are the feature of a written passage which the reader's mind notices—the mouthfuls of thought which are fed to him. The sentences of non-technical informative prose average today between 20 and 25 words. The measurements for the *Times* and the *Saturday Post* editorials hit the common average almost exactly. But in accounting writing, as appears in the Table of Ratios, the average sentence is near 30 words, or over, and sentences of 70 words and more are frequent. When several of these long sentences "gang up" on a reader, heaviness results. In No. 11 of the Table, lightness is achieved by rigidly keeping the sentences short, although the words of the paper are unusually long. In No. 10 lightness is achieved by interspersing a number of sentences of 1 to 10 words—"bullet" sentences. Another resource is the "dumb-bell" sentence, the "compound" sentence of the grammar books, two "principal" clauses connected by *and*. This colloquial pattern, used constantly in talk and in informal letters, but taboo in literary writing, seems to be utilized to ease the stiffness of an accountant's bare statement of fact.

The burden of proof is always upon the user of long sentences; they are hard on a reader's attention powers. In the following, from a letter by a committee of accountants to

The Accountant's Task of Writing

the Commissioner of Internal Revenue, three distinct ideas are crammed into a single sentence. Dividing into three parts, after "internal revenue tax" and after "the examination is necessary," gives three sentences of usual size.

These sections permit the Commissioner to investigate books and witnesses "without regard to any statutory period of limitation for the assessment or collection of any internal revenue tax" and they remove the present requirement that, before making an examination with respect to a taxable year with respect to which the statute of limitations has run, the Commissioner must certify that he has reason to believe that fraud exists, or that the examination is necessary, and the rule that only one inspection may be made for each taxable year unless the taxpayer requests otherwise or unless the Commissioner, after investigation, notifies the taxpayer in writing that an additional inspection is necessary.

In the following, from an accounting report, four ideas are unnaturally squeezed in a single-sentence statement. The purpose may have been to minimize the importance of the last three ideas. It would read more easily if divided somewhat as follows: "Our examination . . . we considered necessary. These procedures were applied . . . other auditing procedures. Certain other exceptions of minor character are noted in the following paragraph." Here is the sentence:

Our examination was made in accordance with generally accepted auditing standards applicable to the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control, except that it was not practicable to

confirm receivables from the United States government agencies, as to which we have satisfied ourselves by means of other accounting procedures, and except as stated in the following paragraph.

Not all long sentences are bad, however. Sometimes an elaborate thought needs to be presented "all in one piece." In the following, long as it is, the backbone is kept clear; there is a main statement followed by a "when" clause and then by a conclusion:

Section 502.8, which defines the base year, has been amended to include a paragraph to the effect that whenever an employee performs military service in the land or naval forces of the United States, for at least ninety consecutive days during the base year, and is honorably discharged from such service, the wages paid in the corresponding quarter of the preceding calendar year shall be substituted for each calendar quarter during the base year in which military service was performed, for the purpose of determining the wages paid during the base year.

Clauses: Long, over-stuffed clauses are probably the chief source of heaviness in the writing of accountants. In most informative writing today the clauses average only 10 or 12 words in length—just a "breathful." That, by the way, is about the time-length of a line of blank verse—Shakespeare's verse—the commonest form of English poetry for the past 400 years. With accountants, however, the clauses run to 20 words and more. Feeling the need of conciseness, it would seem, writers are impelled to cram into a single clause more words, more details of fact, than readers can grasp. Some of the specimens in the Table show that their authors have attacked the problem in the right way, by taking time to find the "one right word"

instead of setting down hastily a series of near-misses and leaving the reader to pick the "right" one. Others take care at least to throw in a short clause here and there to interrupt the march of long ones. Any accountant can improve his necessary writing at once by shortening his clauses.

Words: As to length of words not much need be said. Long technical terms are numerous but hardly more so than in other informative writing of today. A point to be noted is the evenness of the ratio of two-syllable words, the simpler and more familiar of the words that embody *meaning*, the wheelhorses. The percentage seems to hold through technical and non-technical writing. The high proportion of one-syllable words in all writing arises, of course, from constant repetition of little auxiliaries—pronouns, prepositions, auxiliary verbs. In the specimens of this Table the one-syllable words that embody meaning constitute only between 10 and 15 per cent, which is about the proportion in other informative writing.

The ratios in this Table may serve as a hand check-list when reviewing your own work or that of others. If you will make up a similar table, by applying these simple measurements to other examples of current accounting writing, your alertness to readers' needs and to the usefulness of various structural devices will develop rapidly.

Study merely of structure, of course, does little to reveal the secrets of ease or naturalness and by contrast of the clumsiness of the writing of individuals. That shows up in the phrasing, the *idiomatic* grouping of individual words. Language as used in talk—and talk, be it remembered, remains the basis of all writing—follows patterns of detail grouping of words that have come down through the ages and are observed, automatically, by learned and ignorant alike.

Some of these concern trifles of arrangement. The introductory paragraph of a special report closed with this sentence:

"We did not audit any of the data but attempted, insofar as practicable, to correlate the various records used by us."

In talk or an informal letter the expression would be "which we used." Employing this formal order stresses, probably unintentionally, the note of formality. The accountant, steeped in reading formal material, like the lawyer, often employs such formal phrasing, as here, where it is not in place and very likely injures, though ever so slightly, the impression of simplicity which he wishes to produce.

Sometimes the violation of idiomatic custom is on a larger scale. Marked alliteration is strictly avoided in modern English, except in comic passages. Yet in one of the headings in a Consolidated Statement of Earned Surplus, in one of the fine reports analyzed in the Table, is the following heading:

Reduction of reserve to reflect reduced requirements resulting from purchases of insurance, etc.

That six-word alliteration was overlooked by the accounting firm, the company executives, and the advertising agency—until the report had been published!

Another point in idiomatic phrasing is avoidance of the "hissing s," of which there are 39 examples in this short passage:

It is provided further that, if any *such* subsidiary is a member of a group of subsidiaries performing essentially similar functions, and if *such* group of subsidiaries in the aggregate is of material significance in any of the respects of significant subsidiaries, there shall be set forth a brief indication of the relation of the registrant to *such* subsidiaries as a

group, and if the number of *such* subsidiaries does not exceed ten, the names of *such* subsidiaries.

If the writer had read that passage aloud before releasing it, he would probably have detected the many "hisses"; more than twenty of them can be replaced without altering the meaning.

This remark leads to a point to be considered carefully by those who would improve their writing and whose time is limited. All writing, even when supposedly addressed only to the reader's eye, is also appraised, by many persons subconsciously, through the ear. Often, when a clever advertisement fails to catch on, when it seems to rub the public the wrong way, the reason may be that it "does not sound natural." Look at the ads in *Collier's* or the *Saturday Post* or on the subway cards and you will recognize this for yourself. In the process of working a troublesome report passage over and over, until at last a form is reached upon which accountant and client agree, all hands are only too likely to lose their grasp of the idiomatic values of their words. The passage too often emerges as dull and juiceless as a wad of old chewing-gum. How can you fight this tendency to lose hold of your sense of idiomatic phrasing?

Well, there was an element of truth in the words of my accountant friend regarding the value of reading writers of skill, "Macaulay, Emerson and the rest." Doing that strengthens your automatic command of idiomatic phrasing, your instinctive alertness to detect word-groupings that are "algebra, not English." Busy practitioners, of course, can find little time—this side of heaven—for reading and re-reading the old masters. Yet they can find a route to such alertness, more sure and rapid than one would suppose. It is by a flank attack through attention to the way

they *talk*. The standards of idiomatic phrasing are the standards of intelligent but spontaneous *talk*. Reading your material aloud, always, before releasing it, will help. Learn to watch the way you talk in conferences, in conversation, the way you phrase your sentences, the way you build them into paragraph patterns. Your writing will soon improve. Some years before the Refresher Course in Writing was begun, I was asked for a Refresher Course or Clinic in Talking, by a number of business executives and representatives of accounting firms, men well on in middle age. They had occasion to take part in conferences, sometimes to appear before audiences. They wanted experience of intimate and candid criticism from a group, as in the Refresher Course in Writing. A good many men from accounting firms have taken part in these Clinics in Talking, and what is significant in the present connection is that many of them have found their practice in talking has helped them also in their writing. The reason is that it has developed a *sense of the listener*—essentially the same as *sense of the reader*.

Writing is difficult for everyone who has worth-while material to present. The writing required of accountants is extra difficult. It can be rendered easier, however, by analyzing the writing of other men—and your own—and especially by developing some such Table of Ratios as here illustrated, and using it to test your own work or that of others. Probably the attack on the problem which will bring quickest results is by means of a flank approach through attention to your talk. Budgeting a little of your time, scant as it is, during the next few months and centering an attack on developing that *sense of the reader*, as regards both arranging your ideas and building your phrases, will lighten your load after New Year's.

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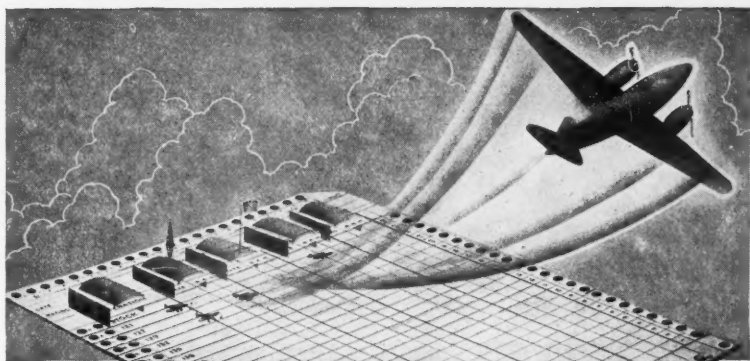
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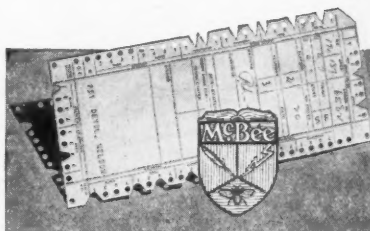
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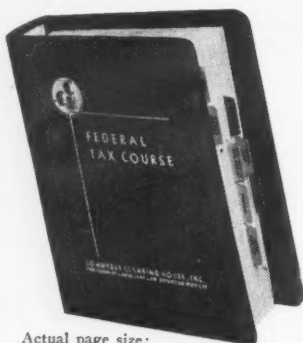
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